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**UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF WASHINGTON**

In Re:

Case No. 18-03197-11

**GIGA WATT INC.,**

**SUPPLEMENTAL DECLARATION  
OF ANDREY KUZENNY**

Debtor in Possession.

The undersigned, Andrey Kuzenny, makes the following declaration:

1. I am the Secretary of Giga Watt, Inc., and competent to be witness herein. I have personal knowledge od the statements herein.

**Reasons for the Bankruptcy Filing**

2. There are several major reasons that led to the bankruptcy filing.

The Pangborn site initially was scheduled to launch in February, but the launch was significantly delayed due to additional requirements from PUD that were not accounted for in the initial construction plan.

3. Giga Watt (GW) had higher than expected CAPEX and operating burn rate.

4. Market downturn limited GW's ability to attract external funding or increase maintenance tariff above current rate as it would make mining unprofitable for clients.

### **The Turnaround Plan**

5. GW needs to increase capacity to become profitable. The key is to launch the substation at Pangborn site. It requires additional capital (estimated cost is \$1M), approval from PUD and 3 to 4 months (estimated time to finish the construction). Additional capacity will help to increase revenue at higher rate than costs, turn into profit and start repaying the liabilities.

6. GW needs to get this short term \$500k DIP loan by the end of December to cover essential bills (primarily for electricity) and avoid freezing the operations.

7. In the end of January GW expects to close \$2M funding round from a potential investor that will help to restructure the company. These funds will be used to repay DIP loan, finish the substation at Pangborn and cover necessary operating expenses until the Pangborn site is launched.

8. After the launch of Pangborn site (expected in May-June 2019 if funding is attracted in the end of January) GW will be able to increase its capacity almost 3 times over. 12 Giga PODs at Pangborn site have already been built and can host the machines that consume up to 18 MW of electricity in total. Pangborn site launch will help to boost GW income and reach positive cash flow.

9. GW also expects that by the middle of 2019 mining profitability will significantly improve (coin prices will rebound and/or network difficulty will drop) as current situation is unsustainable in the long term.

10. At the moment, the majority of the miners do not cover even electricity bills and have to sell off their reserves to stay afloat. Network difficulty adjustment will help to balance the market – if coin prices will not rebound, major part of the miners will have to stop their operations and network difficulty will drop significantly – meaning that the remaining miners will get higher income per each machine.

11. GW has one of the lowest electricity rates in the world and can remain profitable at the gross margin level almost in any scenario (except complete crypto market collapse which is unlikely). Improved mining profitability will help to attract new clients and improve the margins.

### **The Problems Attracting Lenders**

12. GW approached multiple lenders and investors before bankruptcy filing and proposed both equity and debt financing options. The list of potential investors included both crypto mining industry players (e.g. Bitmain) and financial institutions (e.g. Nebari - <http://nebari.us/>).

13. The major difficulty attracting financial institutions was the continuing crypto market downturn and their uncertainty regarding the future, as there is not enough data available about the crypto market to make reliable forecasts in contrast with other cyclical industries. e.g. commodity mining.

14. Due to the same reason it is hard for financial institutions to evaluate existing GW infrastructure as a collateral for loan. The result was that most financial institutions considered both loans and equity investments in GW too risky.

15. Industry players understand crypto market dynamics and cyclical nature of crypto mining, but most of them were short on funds themselves due to the market downturn and/or proposed to acquire the whole company on very unfavorable terms.

#### **The Immediate Need**

16. A short term DIP loan is needed to pay essential bills, primarily for electricity. Without this loan GW will have to stop mining and freeze operations until the funding to restructure the company is attracted. The loan is necessary to pay the \$128,000 deposit to Douglas County PUD and the \$69,000 in past due. Also, the funds are necessary to pay amount due for the Moses Lake properties, as well as pay payroll.

17. The Debtor will use the funds that it generates from its business activities and its clients, in addition to the DIP loan, until the investment mentioned above is available at the end of January. The DIP loan is absolutely essential until the later funds for expansion arrives.

18. Attached as Exhibit "A" is a true and correct record of the coins produced, and production expected to arrive, in relation to the electricity used.

1  
2 I certify under penalty of perjury pursuant to the laws of the State of  
3 Washington and the United States of America that the foregoing Declaration is  
4 true and correct.

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6 SIGNED at New York, ~~Washington~~, this 23<sup>rd</sup> day of December,  
7 2018.

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10 ANDREY KUZENNY

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29 DECLARATION OF ANDREY KUZENNY - 5

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## **EXHIBIT “A”**

**Estimated monthly gross income and coins produced (next 30/60 days)**

Coin	Estimated rewards	Current price, \$	Estimated gross income, \$
btc	36.94	3904.0	144 200
eth	360.19	112.0	40 341
ltc	4714.87	30.8	145 218
dash	321.12	87.7	28 162
	<b>Dashboard</b>		<b>357 921</b>
	<b>Legacy clients</b>		<b>66 290</b>
	<b>TOTAL</b>		<b>424 211</b>

*\*The numbers are based on Dec 22<sup>nd</sup> network difficulty and coin prices and may change in both directions due to the volatility of the crypto market.*

**Coins produced in the month before filing**

Coin	Reward
btc	27.96
eth	263.08
ltc	3 906.00
dash	301.02

Coin	Rewards	Electricity, MW	Nov 19th prices, \$	Dec 18th prices, \$	Gross income at Nov 19th prices, \$	Gross income at Dec 18th prices, \$
btc	30.87	2.56	5 600	3 600	172 872	111 132
eth	329.16	0.65	170	103	55 958	33 904
ltc	3906.00	2.86	42	30	164 052	117 180
dash	309.36	1.51	130	75	40 216	23 202
<b>Dashboard</b>		<b>7.59</b>			<b>433 098</b>	<b>285 418</b>
<b>Legacy clients</b>		<b>2.70</b>			<b>66 290</b>	<b>66 290</b>
<b>TOTAL</b>		<b>10.29</b>			<b>499 388</b>	<b>351 708</b>

There are two major factors that should be taken in consideration:

- 1) Gross income in dollar terms may change significantly depending on the price of coins at the conversion date. We illustrated the difference by taking the prices in the beginning and in the end of the period.
- 2) GW has two legacy clients who bought Giga PODs in 2017 and have a special 3.3 cents/kWh electricity + maintenance rate fixed in the contract. These two clients use ~2.7 MW of electricity, that brings ~\$66k monthly gross income and ~\$10k monthly net income.